

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57999

ISLAND COUNTY, WASHINGTON

January 1, 1995 Through December 31, 1995

Issue Date: January 24, 1997

TABLE OF CONTENTS

| | Page |
|---|------|
| Management Section | |
| Independent Auditor's Report On Compliance With Laws And Regulations At The Financial Statement Level (Plus Additional State Compliance Requirements Per RCW 43.09.260) | M-1 |
| Independent Auditor's Report On Internal Control Structure At The Financial Statement Level | M-3 |
| Schedule Of Findings: | |
| 1. Island County Officials Should Comply With The Growth Management Act And Spend Tax Revenue In Accordance With Statutes | M-5 |
| 2. County Officials Should Improve Controls Over Cash Receipts | M-6 |
| 3. County Officials Should Improve Accounting Controls For General Fixed Assets | M-9 |
| Financial Section | |
| Independent Auditor's Report On Financial Statements And Additional Information | F-1 |
| General-Purpose Financial Statements: | |
| Combined Balance Sheet) All Fund Types And Account Groups - 1995 | F-3 |
| Combined Statement Of Revenues, Expenditures, And Changes In Fund Balances) All Governmental Fund Types - 1995 | F-5 |
| Combined Statement Of Revenues, Expenditures, And Changes In Fund Balances) Budget And Actual - 1995 | F-6 |
| Combined Statement Of Revenues, Expenses, And Changes In Fund Equity) Proprietary Funds - 1995 | F-7 |
| Combined Statement Of Cash Flows) Proprietary Funds - 1995 | F-8 |
| Notes To Financial Statements | F-9 |
| Additional Information: | |
| Additional Information Regarding Audits Of Special Purpose Districts Included In Trust And Agency Funds | F-24 |
| Schedule Of State Financial Assistance - 1995 | F-27 |
| Single Audit Section | |
| Independent Auditor's Report On Supplementary Information Schedule Of Federal Financial Assistance | S-1 |
| Schedule Of Federal Financial Assistance - 1995 | S-2 |
| Notes To Schedule Of Federal Financial Assistance | S-4 |
| Independent Auditor's Report On Compliance With The General Requirements Applicable To Federal Financial Assistance Programs | S-5 |
| Independent Auditor's Report On Compliance With Specific Requirements Applicable To Major Federal Financial Assistance Programs | S-7 |
| Independent Auditor's Report On Compliance With Specific Requirements Applicable To Nonmajor Federal Financial Assistance Program Transactions | S-9 |
| Independent Auditor's Report On Internal Control Structure Used In Administering Federal Financial Assistance Programs | S-10 |
| Status Of Prior Findings | S-13 |
| Addendum | |
| Directory Of Officials | A-1 |

ISLAND COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Commissioners
Island County
Coupeville, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 23, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Island County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are (1) failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or (2) considerable failure to comply with the laws and the *Constitution of the State of Washington*, the county's ordinances and orders, and the requirements of the State Auditor's Office. The results of our tests of compliance disclosed instances of noncompliance that may materially affect the financial statements, the effects of which have not been corrected in the county's financial statements. The material instances of noncompliance noted during our audit are disclosed in the accompanying Schedule of Findings.

We considered the instances of noncompliance in forming our opinion on whether the county's financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and the statutory provisions described in paragraph four of this report.

Except for the material instances of noncompliance disclosed in the Schedule of Findings accompanying this report, the results of our tests of compliance indicate that, with respect to the items tested, the county complied, in all material respects, with the provisions referred to in the third and fourth paragraphs of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 23, 1996

ISLAND COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

Board of Commissioners
Island County
Coupeville, Washington

We have audited the general-purpose financial statements of Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 23, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 23, 1996

ISLAND COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. Island County Officials Should Comply With The Growth Management Act And Spend Tax Revenue In Accordance With Statutes

Island County officials expended \$368,093 of real estate excise tax (REET) revenue during 1995 without proper legal authority. With limited exceptions, REET revenue is restricted to use for capital projects included in the capital facilities element of the comprehensive plan under the Growth Management Act (GMA). Under this act, county officials were required to adopt the GMA comprehensive plan on or before July 1, 1994. County officials have adopted a capital facilities plan element intended to be a part of the GMA comprehensive plan. However, the GMA comprehensive plan has not been adopted. As a result, we are questioning the \$368,093 in capital expenditures and qualifying our opinion on the county's financial statements.

RCW 36.70A.040(3)(d) states in part:

. . . if the county has a population of fifty thousand or more, the county
. . . shall adopt a comprehensive plan . . . on or before July 1, 1994 . . .

Island County collects REET under two statutes with separate restrictions on the use of the funds. Each of the statutes provides authority to impose an excise tax on the sale of real property at a rate not exceeding one-quarter of one percent of the selling price.

RCW 82.46.010(2) and RCW 82.46.35(3) regulate the use of the revenues collected under the statutes and they each state in part:

. . . (Revenues) generated from the tax . . . shall be used . . . solely for
financing capital projects specified in a capital facilities plan element of a
comprehensive plan . . .

Officials have not adopted a GMA comprehensive plan due to unresolved issues pertaining to residential zoning density. Officials continued to expend REET funds for capital projects because they thought it was not necessary to have an adopted GMA comprehensive plan as long as they complied with the requirement to have the capital facilities plan element.

We recommend county officials adopt a comprehensive plan with a capital facilities plan element as required by the Growth Management Act. We also recommend officials return \$368,093 to the real estate excise tax funds.

Auditee's Response

This finding concerns the requirements as set forth in the Growth Management Act of 1990, which included amendments to the Real Estate Excise Tax statutes restricting the collection and use of these funds to projects specified in a capital facilities element of a comprehensive plan. As alleged by the

State Auditor, Island County officials ". . . continued to expend REET funds for capital projects because they thought it was not necessary to have an adopted GMA comprehensive plan as long as they complied with the requirement to have the capital facilities plan element."

The State Examiner's proposed finding number one is based upon a mistaken interpretation of the state statutes authorizing the collection and expenditure of real estate excise taxes (RCW 82.46.010 and RCW 82.46.035).

In the Growth Management Act of 1990 (GMA), four years before the deadline for the completion of comprehensive plans, the state legislature authorized Island County to collect and use the two real estate excise taxes for capital projects specified in a capital facilities element of a comprehensive plan. Island County first adopted a Growth Management Act Capital Facilities Plan in 1992 along with a six-year capital improvement program. Since that time, except for revenues pledged or committed to debt retirement or prior capital projects, all revenues have been expended in accordance with the capital facilities program under the Growth Management Act.

The County has adopted two of the six elements of the Growth Management Act, the Capital Facilities Plan element and the Transportation Plan element. The county has been and continues to work toward adoption of the other four elements of the comprehensive plan. The County anticipates adopting a Comprehensive Plan in 1997, which would moot this finding. Although the deadline for adoption of all elements of the Growth Management Act passed in July 1994, the county, like the vast majority of Washington counties, was unable to complete all its work by that date.

*The State Auditor misconstrues the two real estate excise statutes by concluding that if all elements of the county's GMA comprehensive plan were not adopted on time then expenditures under a currently valid and existing GMA Capital Facilities Plan element of the comprehensive plan must cease. The State Examiner reads RCW 82.46.010(2) and RCW 82.46.035(3) to state "Revenues generated from the tax . . . shall be used solely for financing capital project as specified in a capital facilities plan element of a **completed** comprehensive plan." (word "completed" added to actual statutory language). The statute does not say that and cannot be reasonably construed to mean that.*

Island County's expenditure of real estate excise tax revenues in accordance with the Growth Management Act Capital Facilities Plan element of the county's comprehensive plan is appropriate and should not be the subject of a State Auditor's finding.

2. County Officials Should Improve Controls Over Cash Receipts

Our audit reports for 1994 and 1993 disclosed weaknesses in the county's internal controls over cash receipts. The internal control weaknesses reduce the accountability over departmental cash receipts, and could expose the county to the risk of errors and/or irregularities occurring without being detected in a timely manner. County officials resolved several of the conditions noted in our prior reports, but the following weaknesses remain:

a. District Court:

(1) All of the court clerks have access to one cash register drawer. As a result, responsibility for funds is not fixed to a specific individual at all times.

We recommend the board of commissioners provide one change fund and one cash register drawer per clerk to fix responsibility for funds to specific individuals at all times.

(2) Four court clerks have access to a safe used for change funds and for amounts receipted subsequent to daily balancing.

We recommend limiting access to funds in the safe to fix responsibility for funds to specific individuals at all times.

(3) Only one clerk opens mail which includes payments. A listing of payments is not prepared as mail is opened. The clerk also has other responsibilities relating to cash.

We recommend either two people open mail with one running an adding machine tape and the other preparing receipts, or responsibility for opening mail and listing remittances be assigned to an individual with no responsibility for or access to files or documents pertaining to accounts receivable or cash accounts.

b. District Court Probation Office:

(1) Payments are receipted on generic prenumbered cash receipt forms rather than official prenumbered cash receipt forms with the county's name printed on them. Generic cash receipts provide little control over revenue because duplicate numbering sequences can easily be obtained at many retail stores.

We recommend the probation office use official Island County receipt forms for its cash receipting transactions.

(2) Receipts are not deposited intact. Office personnel pay for certain services directly out of cash receipts.

We recommend receipts be deposited intact and that payments for goods or services be paid by warrant.

(3) The bank account for restitution has an unidentified balance from prior years.

We recommend that all unidentified moneys be remitted to the county treasurer as unidentified receipts.

(4) Only one clerk opens mail which includes payments.

We recommend two people open mail with one running an adding machine tape and the other preparing receipts.

c. Superior Court:

(1) The county clerk prepares and makes the bank deposits, disburses checks, and reconciles the bank statement.

We recommend the bank reconciliation be performed by a disinterested party not having signature authority on the account.

(2) Duplicate bank validated deposit slips showing the composition of receipts are not consistently attached to the original deposit slips.

We recommend a duplicate validated deposit slip be stapled to the original deposit slip.

RCW 43.09.200 states in part:

. . . The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amount due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

We recommend county officials establish and maintain strong internal accounting and administrative controls over cash receipts.

Auditee's Response

Regarding District Court: *In order to improve cash control, it is agreed that separate change funds and drawers for each clerk shall be created in order to reduce the multiple access of funds and drawers which is the case now. As for limiting access to the safe, it is difficult to reduce the number of clerks with access to the safe because employees are often gone or sick. This finding is understandable, but difficult to comply with under the circumstances. Perhaps the newly appointed District Court judge can help rectify this conundrum.*

Regarding the mail, it is agreed that the process of opening mail needs better control; the person opening the mail should run a tape and record the transactions if any, but this person should not be the person who has access to the system controls in order to ensure that cash is recorded properly as cash and not substituted for community service or other non-cash receipt. We will work with the Court to ensure this process is amended to assure proper controls.

Regarding the District Court Probation Office: *This office was specifically told to use official cash receipt forms, but simply failed to follow through. We are assured that the practice has already been amended to follow the recommendation; the Treasurer is issuing this office the pre-numbered receipt forms. The audit also disclosed the absurd practice of paying for goods or services out of receipts, a violation of county policy. We are assured this practice is no longer being done. A small change fund ought to be created for occasional small purchase needs, or they could utilize District Court petty cash as an alternative. As for the unidentified funds under the Probation Office control, it is agreed that where funds are unidentified that they be remitted to the Treasurer for payment to the State per RCW 76.68.280. Regarding the opening of the mail, because only 2% of their receipts are received this way, the problem of only one person opening the mail is not material. However, where possible, it is agreed that two people open the mail whenever it is physically possible to do so. Perhaps the best solution is for the functions of cash receipting and control to be incorporated into the general functions of the District Court system.*

Regarding Superior Court Clerk: *The recommendations made by the State Auditor are proper and logical. The County Clerk does not wish to change the process of bank reconciliation because she believes she is short of personnel and therefore it is practically impossible to alter the process in her office. The recommendation of stapling duplicate validated deposit slips is a relatively easy change to incorporate to ensure better control and will be done.*

With all of the above recommendations, it is the intent of Island County to make whatever improvements it takes to ensure stricter controls over its cash receipting operations.

3. County Officials Should Improve Accounting Controls For General Fixed Assets

Our audit reports for 1991 through 1994 contained findings relating to weaknesses in the county's fixed assets accounting system. While some of these issues have been corrected by

county management, accounting control should be improved for the inventory of general fixed assets.

RCW 36.32.210 was amended during 1995 to require the board of commissioners to file a full and complete inventory of all capitalized assets with the county auditor by the first Monday of each year. The inventory filed for 1995 listed equipment in compliance with the superseded statute; however, it did not include the county's land, buildings or improvements other than buildings. County officials have not prepared a detailed listing of historical cost data for buildings or other improvements included in the general fixed assets account group.

The inadequate fixed asset accounting is partially attributed to insufficient resources assigned to this area by county officials. County officials also are having a difficult time researching older data and obtaining the required information.

As a result of the above conditions, we were unable to apply audit procedures to substantiate the fair presentation of the general fixed asset's buildings and other improvements reported in the county's financial statements.

We recommend that the county officials:

- a. Establish and maintain a comprehensive fixed asset detail ledger for buildings and other improvements. The listing should document each assets acquisition information including date, cost and reference to source document, and disposition information.
- b. File a full and complete inventory of all capitalized assets with the county auditor in compliance with the requirements of RCW 36.32.210, as amended.

Auditee's Response

It is Island County's intent to comply with the recommendations of the State Auditor in connection with fixed asset accounting. It is also our intent to attempt to influence legislation to amend the requirement of RCW 36.32.210 regarding the requirement that a capitalized equipment inventory be filed no later than the first Monday in January, a requirement that is difficult at best, and is likely to be violated by many counties throughout the state.

Auditor's Concluding Remarks

We appreciate the commissioner's actions to improve controls over cash receipts and fixed assets as noted following Findings 2 and 3. Based on the responses, it appears they are appropriately addressing those audit recommendations. We will review those areas during the next audit.

Regarding Finding 1, we believe a complete comprehensive plan adopted under the Growth Management Act is required to authorize expenditures of Real Estate Excise Tax funds for projects included in the capital facilities plan. RCW 36.70A.070 identifies the mandatory elements of a comprehensive plan. Required elements include plans for land use, housing, capital facilities, utilities, rural, and transportation. The statute requires the plan to be an internally consistent document. We believe the county has an impressive capital facilities plan, however, we also believe capital facilities needs may change depending on needs identified in the other elements when the comprehensive plan is complete. It appears the commissioners are appropriately addressing our finding as they anticipate adopting a comprehensive plan in 1997.

We would like to thank the commissioners for their responses to our report findings. We would also like to take this opportunity to express our appreciation for the assistance and cooperation we received throughout the audit.

ISLAND COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Board of Commissioners
Island County
Coupeville, Washington

We have audited the accompanying general-purpose financial statements of Island County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to confirm Island County's buildings and other improvements, stated at \$8,453,912 and \$1,126,677, respectively, at December 31, 1995, in the general fixed assets account group. We were unable to determine the validity of these balances through the use of alternative audit procedures. Additionally, as discussed in Finding 1 in our Schedule of Findings which accompanies this report, we are questioning \$368,093 of Real Estate Excise Tax expenditures which are reported in the Special Revenue Fund type. Statutes require the county to adopt a comprehensive plan under the Growth Management Act (GMA) prior to authorizing those expenditures from that source of revenues.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to determine the validity of buildings and other improvements balances, and for expending \$368,093 of Real Estate Excise Tax revenues prior to adoption of a GMA comprehensive plan, the financial statements referred to above present fairly, in all material respects, the financial position of Island County at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The special purpose districts listed in the supporting schedule are audited as a part of the trust and agency funds of Island County.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 1996, on our consideration of the county's internal control structure and a report dated September 23, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

September 23, 1996

ISLAND COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Additional Information Regarding Audits Of Special Purpose Districts Included In
Trust And Agency Funds**

The State Auditor's Office has established audit policies for special purpose districts associated with the county's financial statements. These audit policies are designed to reflect low audit risk assessment, minimize audit costs, and apply auditing procedures that are appropriate to the district's size and other factors. For the purpose of these policies, special purpose districts are defined as most separate municipal corporations which use the county auditor and treasurer as ex-officio officers. Special purpose districts include:

- Unclassified Public Utility Districts
- Public Hospital Districts
- Unclassified Port Districts
- Cemetery Districts
- Ferry Districts (except county ferries)
- Fire Protection Districts
- Park and Recreation Districts
- Mosquito Control Districts
- Weed Control Districts
- Animal Pest Control Districts
- Ambulance and First Aid Districts
- Irrigation Districts
- TV Reception District
- Diking Districts
- Flood Control Districts
- Drainage Districts
- Diking and Drainage Districts
- Water Districts
- Sewer Districts
- Water/Sewer Districts

These policies DO NOT apply to school districts, airport districts, road improvement districts, county road and bridge service districts, utility local improvement districts, local improvement districts, metropolitan park districts, public transportation benefit areas, housing authorities, solid waste collection districts, county rail districts, lake management districts, or any economic or industrial development districts.

Classifications

Special purpose districts are classified into three categories determined by the amount and source of revenues. These categories define audit planning and scheduling, auditing procedures and levels of testing, billing procedures, and audit reporting requirements.

Category 1 Districts

All special purpose districts, regardless of type, which either:

- a. Had more than \$500,000 of operating revenues in any year being audited, or
- b. Received \$25,000 or more of direct or indirect federal assistance in any year being audited.

Category 1 districts are audited individually and each receives its own audit report. The Category 1 districts associated with the county's financial statements are:

Fire Protection District No. 1
Fire Protection District No. 2
Fire Protection District No. 3
Central Whidbey Island Fire and Rescue
North Whidbey Park and Recreation
Sno-Isle Inter-County Library
Whidbey Island Hospital District

Category 2 Districts

All special purpose districts which had total operating revenues of at least \$25,000 but not more than \$500,000 in any year being audited and which received less than \$25,000 in direct and indirect federal assistance. Additionally, the following types of districts will be considered as Category 2 even if their annual revenues are less than \$25,000:

Public Utility Districts
Public Hospital Districts
Irrigation Districts
Water Districts
Sewer Districts
Water/Sewer Districts
Port Districts

These types of districts have greater audit risks than other types of districts of equivalent size because they typically received a significant amount of their revenues from locally generated sources rather than through taxes and assessments.

Category 2 districts are audited as a group using limited auditing procedures. A single, combined audit report is issued for the Category 2 districts. The Category 2 districts associated with the county's financial statements are:

Cemetery District No. 1
Cemetery District No. 2
I-COM
Port of Coupeville
Port of South Whidbey
Swantown Water District
Admirals Cove Water District
Bayview Beach Water District
Camano Vista Water District
Clinton Water District
Crockett Lake Water District
Freeland Water District

Holmes Harbor Water District
Juniper Beach Water District
Lagoon Point Water District
Ledgewood Beach Water District
Long Beach Water District
North Whidbey Water District
Penn Cove Water District
Rodena Beach Water District
Saratoga Water District
Scatchet Water District
South Whidbey Park and Recreation
Penn Cove Sewer District
Ebey's Historic Landing Reserve
Diking District No. 1

Category 3 Districts

All special purpose districts which had total operating revenues of less than \$25,000 in any year being audited except those districts specifically listed in Category 2.

Category 3 districts are audited only at the county level using auditing procedures appropriate for a trust and agency fund. No separate audit reports are issued for Category 3 districts. The Category 3 districts associated with the county's financial statements are:

Diking District No. 2
Diking District No. 3
Diking/Drainage District No. 1
Diking/Drainage District No. 4
Drainage District No. 5
Drainage District No. 6
Drainage District No. 7
Lakeview Terrace Water District
Port of Mabana

ISLAND COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Commissioners
Island County
Coupeville, Washington

We have audited the general-purpose financial statements of Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 23, 1996. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Island County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

September 23, 1996

ISLAND COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Commissioners
Island County
Coupeville, Washington

We have audited the general-purpose financial statements of Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 23, 1996.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirement was determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 23, 1996

ISLAND COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs**

Board of Commissioners
Island County
Coupeville, Washington

We have audited the general-purpose financial statements of Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 23, 1996.

We also have audited the county's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- matching, level of effort, or earmarking
- special tests and provisions related to approvals, environmental reviews, program income, and subrecipient agreements as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for advances and reimbursements
- and amounts claimed or used for matching

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Island County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 23, 1996

ISLAND COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions**

Board of Commissioners
Island County
Coupeville, Washington

We have audited the general-purpose financial statements of Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 23, 1996.

In connection with our audit of the financial statements of the county and with our consideration of the county's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Island County had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 23, 1996

ISLAND COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Commissioners
Island County
Coupeville, Washington

We have audited the general-purpose financial statements of Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 23, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated September 23, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on the compliance with requirements applicable to major programs, and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and internal control structure procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated September 23, 1996.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Payroll
 - Inventory control
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **General Requirements**
 - Relocation assistance and real property acquisition
- **Specific Requirements**
 - Eligibility

During the fiscal year ended December 31, 1995, the county expended 62 percent of its total federal financial assistance under the major federal financial assistance program and the following nonmajor federal financial assistance program: U.S. Department of Transportation, Highway Planning and Construction (CFDA 20.205).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the county's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, and the aforementioned nonmajor program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 23, 1996

ISLAND COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. County Officials Should Improve Accounting Controls For The General Fixed Assets

Resolution: *Unresolved, see Finding 3.*

2. County Officials Should Improve Controls Over Cash Receipts

Resolution: *Unresolved, see Finding 2.*